

Message Text

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SAM-01 SAJ-01 IO-13 TRSE-00 OMB-01 EB-07 COME-00 /089 W

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FM AMEMBASSY LONDON

TO SECSTATE WASHDC 3414

INFO AMEMBASSY ANKARA

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E.O. 11652: GDS

TAGS: PGOV, PINT, EGEN, PFOR, UK'EFIN

SUBJECT: BRITAIN IN JUNE

REFERENCE: LONDON 8476

1. JUNE IN THE UNITED KINGDOM WAS ANOTHER MIXED MONTH FOR THE GOVERNMENT, BUT IT WAS NO BETTER FOR THE CONSERVATIVES AND UNDOUBTEDLY WORSE FOR LIBERALS. FOR MOST OF JUNE, THE TORIES BOYCOTTED THE COOPERATIVE MECHANISMS OF PARLIAMENTARY BUSINESS. THEY STOOD DOWN AT WESTMINSTER BECAUSE OF SHARP GOVERNMENT PRACTICE IN ITS ONE-VOTE VICTORY IN THE COMMONS AT THE END OF MAY ON THE AIRCRAFT AND SHIPBUILDING NATIONALIZATION BILL. THE CONSERVATIVES CHARGED THAT HMG CHEATED ON THE TALLY. ON JUNE 22, CALLAGHAN OFFERED THE OPPOSITION ANOTHER OPPORTUNITY TO VOTE ON THE BILL, AND THE INCIDENT WHICH BEGAN WITH A BANG IN MAY ENDED WITH A WHIMPER A MONTH LATER. THE SECOND TIME AROUND, THE SCOTTISH AND WELSH NATIONALISTS ABSTAINED AS A RESULT OF CONSTITUENCY PRESSURES AND AN AMBIGUOUS OFFER FROM HMG TO PROVIDE SEPARATE REGIONAL IDENTITIES FOR THE TWO NATIONALIZED CORPORATIONS. THE BILL PASSED AGAIN, THIS TIME BY A MAJORITY OF 14. THE TORIES, WHO BELIEVED TO THE LAST THAT THE SNP WOULD VOTE AGAINST THE GOVERNMENT, WERE OUTRAGED, OUTMANEUVERED AND OUTVOTED.

2. THIS WAS NOT THE ONLY SLIPPED DISC IN JUNE FOR THE CONSERVATIVES. EARLIER IN THE MONTH THE SHADOW CABINET, AFTER DIVISIVE INTERNAL DEBATE, DECIDED TO PUT DOWN A MOTION OF NO-CONFIDENCE IN THE GOVERNMENT'S HANDLING OF THE ECONOMY. THERE WAS LITTLE LEAD IN THE TORY'S FLACCID FUSILLADE IN THE HOUSE, THE LABOR GOVERNMENT AMBLED TO A COMFORTABLE 19 VOTE MARGIN, AND OBSERVERS WERE WITNESS TO A FURTHER EXAMPLE OF MRS. THATCHER'S INCONCLUSIVE PARTY LEADERSHIP. TED HEATH'S VINEGARY FEUD WITH HER PERIODICALLY BUBBLES INTO THE HEADLINES, THE SHADOW CABINET CONTINUES TO CAST A STRIKINGLY SHORT ONE, AND THE LATEST GALLUP POLL SUGGESTED ONLY 54 OF

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CONSERVATIVES APPROVED OF MRS. THATCHER'S LEADERSHIP. IN SUM, THE TORIES ARE PRESENTLY OFFERING THE COUNTRY NEITHER A CHOICE NOR AN ECHO, PRINCIPALLY BECAUSE THEY HAVE YET TO DECIDE IF THEY WANT AN EARLY GENERAL ELECTION

3. IF THE CONSERVATIVES ARE DOWN, THE LIBERALS ARE NEARLY OUT. AFTER THE JEREMY THORPE TRAVESTY IN THE SPRING AND J. GRIMOND'S RELUCTANT AGREEMENT TO BE

INTERIM LEADER, THE PARTY IN JUNE WENT ABOUT CHOOSING ITS NEW CHIEF. THE LIBERALS FIRST ADOPTED THE MOST DEMOCRATIC PROCEDURES EVER IN THIS COUNTRY FOR SELECTING A PARTY LEADER AND SOME 20,000 CONSTITUENCY VOTES WERE CAST IN THE CONTEST. UNFORTUNATELY, THE CANDIDATES, DAVID STEEL AND JOHN PARDOE, REDUCED THE RACE TO FRIVOLOUS INVECTIVE. AT THE END OF THE CAMPAIGN, MOST BRITISH VOTERS WERE, AS USUALLY, SUBLIMELY IGNORANT OF HOW THE LIBERALS DIFFERED FROM THE OTHER PARTIES, EXCEPT THAT THEY WERE CERTAINLY SILLIER. THE NEW LEADER, PROBABLY STEEL, WILL HAVE TO PULL HIS PARTY OUT OF THE DEEP, DEEP HOLE IT HAS DUG FOR ITSELF IN THE PAST TWO YEARS. IN FACT, A GENERAL ELECTION ANY TIME SOON COULD JUST ABOUT SOUND TAPS FOR THE PARLIAMENTARY LIBERAL PARTY.

4. WHILE INDECISION AND MISFORTUNE PLAGUED MOST OF THE

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OPPOSITION, THE CALLAGHAN GOVERNMENT HAD ITS OWN PROBLEMS. BRITAIN'S FINANCIAL SITUATION CONTINUES TO BE MIGHTY SHAKY. THE NEARLY UNANIMOUS ENDORSEMENT BY THE TRADE UNION CONGRESS (TUC) JUNE 16 OF A SECOND YEAR OF WAGE RESTRAINT WAS PARTIALLY DILUTED BY THE SHARP SLIDE OF STERLING TO THE \$1.70-71 RANGE. THIS LEVEL RESULTED IN PART FROM THE VIEW OF MANY STERLING HOLDERS THAT HMG WOULD NOT CUT PUBLIC EXPENDITURE IN ORDER TO INSURE A NON-INFLATIONARY ECONOMIC RECOVERY. THE GOVERNMENT WAS ABLE TO HALT THE SLUMP BY ARRANGING A \$5.3 BILLION, 6-MONTH SWAP LINE WITH THE G-10 COUNTRIES AND THE BANK FOR INTERNATIONAL SETTLEMENTS IN BASLE. BUT THE SWAP LINE, WHILE GIVING HMG A BREATHING SPELL, DID NOT ALTER THE UNDERLYING CONDITIONS WHICH HAD LED TO CALLS FOR PUBLIC EXPENDITURE CUTS. HOWEVER, THE GOVERNMENT, THOUGH ACTIVELY CONSIDERING SUCH A COURSE, WAS RELUCTANT TO MAKE ANY MOVE IN THIS DIRECTION PRIOR TO THE TUC VOTE, FEARING THAT SUCH CUTS WOULD REDUCE THE MARGIN OF SUPPORT FOR THE 4.5 PERCENT SECOND PHASE.

5. THE EVENTS OF MAY AND JUNE HIGHLIGHT THE DIFFICULTIES HMG FACES IN MANAGING AN INCOMES POLICY, WHOSE SUCCESS DEPENDS DECISIVELY ON STEADY SUPPORT AND PERIODIC RATIFICATION BY THE TRADE UNION MOVEMENT. GENERAL ATTENTION IS CENTERED ON MINUTE PRONOUNCEMENTS MADE BY THE GOVERNMENT AND THE UNIONS, REGARDLESS OF THEIR

RELEVANCE TO THE OVERALL INCOMES POLICY. THE RECENT UNDERLYING POSITIVE MOVEMENT IN BRITAIN'S ECONOMY AND INCREASING INDICATIONS OF PUBLIC ACQUIESCENCE TO FURTHER BELT-TIGHTENING ARE THUS OFTEN LOST AMID SCARE HEADLINES WHICH MAKE CORONARIES OUT OF COUGHS. IN THIS SITUATION, INCOMES POLICY BECOMES FOR CALLAGHAN'S GOVERNMENT THE ART OF MANAGING SHORT-TERM CRISES. THESE OCCUR AS POLITICAL PRESSURE GROUPS SEE THEIR INTERESTS THREATENED OR ACTUALLY INJURED BY STRICT WAGE RESTRAINT AND POSSIBLE CUTS IN PUBLIC EXPENDITURE, OR WHEN FOREIGN HOLDERS OF STERLING BELIEVE THAT THE GOVERNMENT IS CONSIDERING UNSOUND POLICY IN THE FACE OF THESE
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PRESSURES.

6. YET, BEHIND THE INTENSE PUBLIC DEBATE OVER ECONOMIC STRATEGY AND PRIORITIES, IT IS UNDENIABLE THAT THE MAJOR INDICATORS FOR THE FIRST QUARTER OF 1976 POINT TO THE BEGINNING OF A STRONG UK ECONOMIC RECOVERY. GDP ROSE AT AN ANNUAL RATE OF 4 TO 4.5 PERCENT DURING THE FIRST QUARTER. IN APRIL, INDUSTRIAL PRODUCTION INCREASED SHARPLY WHILE RETAIL PRICE INFLATION EASED TO AN ANNUAL RATE OF 15.4 PERCENT BETWEEN MAY OF 1975 AND 1976. UNEMPLOYMENT REMAINS AT 5.4 PERCENT, VIRTUALLY UNCHANGED SINCE FEBRUARY WHILE EXPORT VOLUME HAS GROWN AT AN ANNUAL RATE OF 16.3 PERCENT SINCE JANUARY. FURTHER, RETAIL SALES, THE MAIN BAROMETER OF CONSUMER EXPENDITURE, HAVE SHOWN LITTLE MOVEMENT. THIS IS ESSENTIAL TO THE ACHIEVEMENT OF HMG'S GOAL OF AN EXPORT AND INVESTMENT LED RECOVERY. SUCH A RECOVERY, NOW MORE THAN A DREAM, CAN MOVE THE ECONOMY ONTO A GROWTH PATH WHICH WOULD IN TURN ENABLE BRITAIN TO BEGIN MAKING THE STRUCTURAL REFORMS REQUIRED TO ESTABLISH A COMPETITIVE INDUSTRIAL BASE.

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7. PERHAPS BUOYED BY THESE CALFISH, IF NOT BULLISH,
ECONOMIC INDICATORS AND BY THE END OF THE DRAINING COD
CONFLICT WITH ICELAND, HMG MOVED DURING JUNE WITH SOME
CONFIDENCE IN THE INTERNATIONAL ARENA. THE EXTERNAL
STAR OF THE MONTH WAS PRESIDENT GISCARD TO WHOM THE

PRIME MINISTER ARGUED THE LOGIC OF BRITAIN AS A BENIGN
BALANCE FOR EUROPE. AT THE SAME TIME, THE TWO LEADERS
MAY HAVE EVEN ENDED THE DIRECT ELECTIONS SQUABBLE.
CALLAGHAN SAID GOODBYE TO GISCARD IN LONDON, ONLY TO
MEET HIM IN PUERTO RICO A DAY LATER WHERE BRITAIN,
NOTWITHSTANDING ITS DIFFICULTIES, WAS AGAIN PRESENT
AMONG THE BIG BOYS. SUNNY JIM THEN RETURNED BRIEFLY
HOME BEFORE TRAVELING TO THE FEDERAL REPUBLIC JUNE 30
FOR TALKS WITH CHANCELLOR SCHMIDT. THIS ACTIVISM WAS
ACCOMPANIED BY A DISCERNIBLE PROJECTION OF HMG CONFID-
ENCE, PERHAPS PARTIALLY BECAUSE BRITAIN BELIEVES IT HAS
LESS AND LESS TO APOLOGIZE FOR AS AN ECONOMIC AND
POLITICAL ENTITY. IN ANY EVENT, IN MANY WAYS THINGS
LOOK BRIGHTER HERE. NOT GOLDEN BY ANY MEANS.
NOT EVEN SILVER PLATE YET. BUT THE PERVASIVE GLOOM OF A
YEAR AGO IS CERTAINLY GONE. WE HAVEN'T SEEN AN "IS
BRITAIN GOVERNABLE" ARTICLE IN THE BRITISH PRESS THIS
YEAR.

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